

Crisis for West Germany by the end of 1982?

by David Goldman, Economics Editor

EIR Economics Editor David Goldman is currently on a two-month visit to West Germany, where he is meeting with banking and industrial leaders.

Although the standard forecasts issued by commercial banks and economic institutes predict a modest economic stabilization in West Germany's economy—in distinct contrast to the disaster on the other side of the Atlantic—there are few illusions among well-informed circles here that Germany might escape the consequences of a world depression for much longer than an additional six to eight months. West Germany will face its greatest economic, and therefore political crisis in the post-war period not later than the end of 1982, barring a dramatic reversal of U.S. economic policy.

As the world's most trade-dependent industrial nation, with 55 percent of total output devoted to exports, West Germany faces an impossible situation should world trade continue to decline. The last several months' developments among some key West German trading partners are, in direct consequence of the American problem, an extremely grim warning for the near future. According to estimates by economists at the General Organization for Trade and Tariffs in Geneva (GATT), Third World imports shrank by 5 percent during 1981 and will shrink at an even faster rate next year. Meanwhile, the imports of the Eastern European countries fell

by more than 6 percent during the fourth quarter of last year alone, and eastern trade shows no sign of recovering.

The British argument

It is speciously argued on West Germany's behalf, especially by British economists, that since the American share of Europe's exports is relatively small, even a disaster in the U.S. economy will have relatively little effect on the German economy. However, as a senior Economics Ministry official in Bonn told a journalist recently, "It is impossible to estimate what the effects of a U.S. depression would be for the West German economy, because the indirect effects, not the direct effects, are what is important. Look at the effect of the U.S. economic problem upon the Third World, for example; if their economic growth falls due to high interest rates, they can import less from West Germany."

For a variety of extraordinary reasons West Germany has been able, in the past year, to expand its exports (by 6 percent in real terms) even while world trade stagnated or fell. Part of this has to do, ironically, with high American interest rates; the continued overvaluation of the dollar, by at least 30 percent in relative price terms, means that West German goods paid for in dollars are a bargain. Adding to this short-term curren-

cy effect is the situation in West Germany's western neighbor and main trading partner, France. François Mitterrand's election last year threw France's economy into special problems, and allowed West German exporters to beat their French competition on their own ground. West Germany's trade surplus with France grew enormously, accounting for the largest part of Germany's trade surplus.

So while real living standards actually fell marginally during 1981, West Germany was able to use the complications of the same Volcker policy that forced high interest rates onto the Europeans to expand its export markets by a significant margin. Only through foreign orders could West German industry avoid a major collapse of production levels, which still, nonetheless, remain below the level registered at the end of 1980. That is less than a desirable situation, but it reflects the ability of the still-seaworthy German economy to maneuver during the beginning phases of a world depression.

No more escape-hatches

All of the escape-hatches that gave West Germany the tone of a modest economic recovery during the last few months are now being sealed. Reality has caught up with François Mitterrand's France, and the French franc will probably undergo devaluation during the next weeks, making German goods more expensive in France. The German export boom to France will not collapse all at once, but the momentum will be gone; and the end of the year will see a significant absolute fall-off of German exports to France.

West German bankers are already trying to stay as far away from additional big loans to Third World nations as possible, given the near-disastrous financial condition of most of the big Third World debtors; but these big debtors happen to be West Germany's biggest customers. Finally, the OPEC countries, who took half-again as much German exports during 1981 as during the previous year, have entered 1982 with lower oil prices and less money to spend. Several OPEC members who have developed important trading relations with West Germany, such as Nigeria, are in deep trouble.

That means, as most of this country's sharpest economic observers believe, that while German industry has a big enough order-book to make it through most of this year, it is moving inexorably to a sheer dropoff at the end of the year. The problem for Europe, as a commentator in the London *Daily Telegraph* wrote March 22, is not so much that the United States is a major market; despite the huge apparent size of the fluffed-up American GNP (26 percent of world GNP), the United States takes only 14 percent of world imports. The problem is that the United States is the "world's financial transmission belt."

Excepting the early disappearance of Federal Reserve Chairman Paul Volcker, West German economic survival may depend on actions which had been unthinkable during the years of NATO solidarity and strength following World War II. Trade with the East bloc is falling for one reason and one reason only: the Chancellor wants to avoid hysteria in Washington, and he refuses to believe that such a great nation would not hold back from economic and political suicide. The neutral Austrians, who are not members of NATO, and whose prime minister was host to Libya's Qaddafi last month, have no such problem. They lent the Soviets \$1.1 billion in two weeks in mid-March, and are building a half-billion dollar steel mill in Byelorussia. The Austrian credits, enormous for a country Austria's size, makes the argument one hears everywhere in West Germany respecting eastern trade—namely, that the Soviets are short of hard currency—look sort of silly. The Germans know perfectly well that the Soviets will be earning \$15 billion a year through natural gas shipments to the West by the late 1980s: They are providing the means to ship the gas West despite hysterical objections in Washington. "Theoretically," said one West German bank economist, "there are no obstacles to making bridge credits with five-year maturity to the Soviets, so that they could buy everything they want here right away."

Recession—not loss of leadership

But the West Germans would rather take a recession, and a bad one, than throw away their last chance to exercise world leadership in a world gone haywire as a result of Washington's disorientation. There are no financing problems; the biggest worry West German industry has now, said an economist at a top steel company, is not that the Russians will run out of money, but that the Japanese will get the edge on the next generation of Russian industrialization efforts in Siberia. The problem is political. The hesitation of West German firms to throw themselves into major deals with the Soviets virtually guarantees a grim economic situation for West Germany by year's end. Instead of doing what is rational, West German firms are submitting to Washington's demands.

Because its underlying industrial potential as a major net exporter is still there, West Germany still has considerable room to maneuver. For a nation that survived virtually total destruction through war, and rebuilt, a temporary economic collapse is something to be endured and overcome.

The danger is not that the economic alternatives available to West Germany will disappear; rather it is that the economic decline may finally undermine Chancellor Helmut Schmidt's eight-year administration, and leave West Germany without the leadership to take those alternatives.